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TO RUEHC/SECSTATE WASHDC IMMEDIATE 2740  
INFO RUEHXX/ARAB ISRAELI COLLECTIVE PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RUEHBS/USEU BRUSSELS PRIORITY

C O N F I D E N T I A L JERUSALEM 002402

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NEA FOR FRONT OFFICE; NEA/IPA FOR  
WILLIAMS/GREENE/WATERS/WAECHTER; NSC FOR  
ABRAMS/DORAN/LOGERFO; TREASURY FOR NUGENT/ADKINS

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TAGS: [EFIN](#) [ECON](#) [ETRD](#) [KWBG](#) [IS](#)  
SUBJECT: WEST BANK/GAZA BANKERS SEEK TO COOPERATE WITH  
ISRAELI BANKS; FEAR IMPACT OF CUT IN TIES

REF: A. JERUSALEM 1383

[1](#)B. TEL AVIV 1982

Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d).

[1](#)1. (C) Summary: Bankers operating in the West Bank and Gaza say they are prepared to adopt new procedures to avoid a threatened cutoff of check clearing and other banking services by Israeli commercial banks. They assert that a severing of banking ties will adversely affect both the Palestinian and Israeli economies. Palestinian Monetary Authority (PMA) Governor George al-Abed has been in contact with his Israeli counterpart and believes a solution can be found that includes increased vetting procedures. The bankers and Abed assert that, based on the Paris Protocol, the GOI has an obligation to facilitate NIS-denominated transactions. End Summary.

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Shekel-Dependent Monetary System  
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[1](#)2. (C) Senior representatives of Palestinian and regional banks expressed their concerns June 7 to USAIDoffs and EconOffs over the decisions by Bank Hapoalim and Israeli Discount Bank to sever ties with banks operating in the West Bank and Gaza (ref A). Arab Bank's Regional Manager Mazen Abu Hamdan stated that the Paris Protocol (Article IV, 10(a)) established the New Israeli Shekel (NIS) as one of the circulating currencies in the West Bank and Gaza Strip and that it required banks on both sides to clear money orders and transactions (Article IV, 13(b)) and have correspondential relations (Article IV, 14). Abu Hamdan stated that Israel exports USD 3-3.5 billion in goods to the West Bank and Gaza every year and another USD 2 billion in goods from abroad are imported through Israeli ports. Palestinians pay for most of these imports with NIS. The NIS is also the retail currency of the West Bank/Gaza. Abu Hamdan estimated that there are NIS 2-3 billion in circulation in the West Bank and Gaza, including NIS held in bank accounts.

[1](#)3. (C) PMA Governor Abed described June 8 the types and volume of NIS transactions. First, Israeli banks and banks based in the West Bank and Gaza clear NIS-denominated checks and small payments totaling about NIS 9 billion per year, NIS 5.5 billion of which are drawn on banks in the West Bank and Gaza and NIS 3.4 billion from Israeli banks by Palestinian clients. Second,

NIS-denominated transfers (valued at under USD 10,000) between the two banking sectors amount to NIS 5 billion per year. Lastly, NIS currency sales and purchases stand at about USD 3.4 billion in NIS (USD 2 billion per year in NIS purchased from Israel and NIS valued at USD 1.4 billion returned to Israel). Most of the Palestinian trade deficit is financed by USD transfers to the West Bank and Gaza from abroad.

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More Time Needed  
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¶4. (C) The bankers asserted that, given the prominent role of the NIS, the 90-day notice of the severing of ties does not allow banks in the West Bank and Gaza sufficient time to switch to alternative currencies, primarily the USD. Governor Abed said that banks would need at least 9 months to switch from the NIS to alternative currencies. In addition to letters of credit extending beyond the Israeli bank deadlines (July 5 for Bank Hapoalim and August 13 for the Israeli Discount Bank), Abu Hamdan noted that many transactions between Israeli and Palestinian companies involve post-dated checks, in some instances with validity dates of two years or more. The bankers predicted a rise in cash transactions, with currencies carried through crossings and into Israel, a process that they pointed out would unfortunately also circumvent banking controls, facilitating the flow of "dirty cash."

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Double-edged Sword  
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¶5. (C) The bankers asserted that the Israeli banks' actions would also have an adverse impact on the Israeli economy.

They stated that, given the trade imbalance in favor of Israel, a disruption in trade financing could ultimately result in as much as a USD 300 million per month net loss to the Israeli economy. The bankers also asserted that the resultant flow of NIS back into Israel would lead to its depreciation there, while, due to scarcity, the NIS would increase in value in the Palestinian territories, creating a black-market for NIS where one could "buy low in Tel Aviv and sell high in Ramallah." Egyptian Arab Land Bank GM Jabr asserted that banks in the Palestinian territories also help Israel gain access to business in other Middle East markets, such as Dubai, through the issuance of letters of credit denominated in other Middle Eastern currencies.

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No Partner to Talk to  
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¶6. (C) Abu Hamdan stated that he and his fellow bankers understand the concerns of Bank Hapoalim and the Israeli Discount Bank and are prepared to implement measures to reduce any risk in order to maintain ties with their Israeli counterparts. He suggested that banks are ready to enhance best banking practices, due diligence procedures and also provide more information on Palestinian customers, including Israeli ID numbers. Abed said that he had been in contact with his Israeli counterpart Central Bank of Israel (CBI) Governor Stanley Fischer over the Bank Hapoalim and Israeli Discount Banks decisions and understood the GOI is still discussing a proposal with Israeli banks (ref B). He said the Palestinian banks are not adverse to new vetting procedures.

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Deadline Looming  
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¶7. (C) In the meantime, Bank Hapoalim's July 5 deadline for cutting ties approaches. West Bank and Gaza banks are already notifying customers to stop accepting or issuing NIS-denominated checks. Abed said he remained hopeful that an

agreement will be reached.

WALLES